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Just Trust Us

By PAUL KRUGMAN

The story so far:

Summer 2000: Candidate George W. Bush assures voters that his tax cut is affordable. He illustrates his point with four \$1 bills. One bill, he says, represents the tax cut; one represents new programs, such as prescription drug coverage; the other two are funds set aside to pay down debt, strengthening Social Security. He pledges, without qualification, not to dip into the Social Security surplus.

Spring 2001: The Bush administration pushes its tax cut through Congress. Officials dismiss concerns that projections of a huge surplus may be excessively optimistic, assuring Congressmen that the projections are actually on the low side. Mr. Bush also claims that his budget includes a trillion-dollar reserve, enough to deal with any contingency.

Summer 2001: Just weeks after the tax cut passes, officials reveal that tax receipts have been coming in far below expectations. Budget projections are revised sharply downward, but the administration still claims that it will run an overall surplus greater than the Social Security surplus, that is, more than \$150 billion per year. The administration also claims that the tax cut, conceived at a time of runaway boom, is exactly the right medicine for an ailing economy.

October 2001: "Lucky me: I hit the trifecta." So remarks Mr. Bush, claiming that recession, national emergency and war have let him off the hook on his budget promises. Though some think that it's in bad taste, the trifecta joke becomes part of Mr. Bush's standard stump speech. He claims to have made this exception to his budget pledges during the 2000 campaign, but there is no record of his having done so.

November 2001: Budget director Mitch Daniels admits that the overall budget — not just the budget outside Social Security — will actually be in deficit for fiscal 2002.

July 2002: The White House admits that the deficit for fiscal 2002, which ends in September, will be \$165 billion — a non-Social-Security deficit of \$322 billion. But it still says that the budget will be back in surplus by 2004.

August 2002: The nonpartisan Congressional Budget Office issues a much grimmer projection, with a 2003 deficit twice that predicted by the administration, and deficits persisting until 2006. Moreover, the C.B.O. is required by law to make unrealistic assumptions that cause it to understate future deficits. A new analysis by Goldman Sachs, which is not under these constraints, predicts deficits well over \$100 billion each year for the rest of the decade.

This \$7 trillion reversal of fiscal fortune has received remarkably little public attention; it has been crowded off the front page by talk of war. But its consequences will be immense.

Where did the surplus go? The "trifecta" is not the main story; recessions have only a small impact on long-run projections, and the Center on Budget and Policy Priorities calculates that increases in military and homeland security spending account for only 16 percent of the 10-year deterioration in the C.B.O. projection. In fact, it's clear that we would be facing large deficits outside Social Security, and probably significant deficits in the budget as a whole, even if neither the recession nor Sept. 11 had happened.

The two main culprits are the tax cut and "technical changes" in the estimates: perhaps because of the end of the bull market, a given level of G.D.P. is yielding much less revenue than it did during the late 1990's. Or to put it another way, our brief era of big surpluses seems to have been a fluke.

Despite assurances that the tax cut would promote recovery, the economy seems to be sputtering. Early indications are that the administration will propose another round of tax cuts, all of them aimed at stock market investors. It's important to notice that such measures as increased deductions for capital losses provide no benefit to those whose investment takes place through 401(k) plans; so these tax breaks are mainly for the very affluent. A careful analysis by William Gale and Peter Orszag — experts at Brookings who have consistently, and correctly, warned that administration budget projections were overoptimistic — shows that these measures will be ineffective as stimulus, and will further worsen the budget outlook.

Of course, administration officials will brush this aside, assuring us that their proposals are just what the nation needs. Can anyone think of a reason not to trust them?

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